Dr. Manmohan Singh: India's Adam Smith

Dr. Manmohan Singh, India's 14th Prime Minister and one of the country's most distinguished economists, is often credited with ushering in the era of economic liberalization in 1991. His contributions to India's economic transformation parallel those of Adam Smith, the father of modern economics, who advocated for free markets and the invisible hand of economic self-regulation. When India faced an acute balance-of-payments crisis in 1991, Dr. Singh, then Finance Minister under Prime Minister P.V. Narasimha Rao, initiated sweeping financial reforms that dismantled decades of protectionist policies and introduced liberalization, privatization, and globalization. His policies laid the foundation for India's emergence as a global economic powerhouse, much like Adam Smith's ideas laid the groundwork for modern capitalist economies.

Dr. Singh's understanding of Adam Smith's classical economic principles was evident in how he redefined India's financial structure. Much like Smith, who emphasized the importance of limited government intervention, competition, and open markets, Dr. Singh implemented policy changes such as deregulation, the reduction of import tariffs, and the opening up of the economy to foreign direct investment (FDI). India, which had long followed a socialist model with excessive state intervention and central planning, witnessed a paradigm shift as liberal reforms allowed private enterprises to flourish. His focus on free-market mechanisms enabled efficiency, competition, and innovation, leading to accelerated economic growth in the subsequent decades. Singh's faith in the transformative power of free markets, guided by Smith's philosophy, helped India escape the 'Hindu rate of growth' and integrate into the global economy.

However, Dr. Singh did not rely solely on Adam Smith's classical economics, it seems, he was also influenced by the economic principles of Dr. Milton Friedman, a leading proponent of free markets and minimal government intervention. In his famous work *Free to Choose*, Friedman argued that inflation is always a monetary phenomenon and advocated for limited state control over economic activities. Singh's approach to fiscal discipline and monetary policy echoed Friedman's views, particularly the belief that "there is no free lunch." Friedman staunchly opposed extensive welfare models, arguing that they ultimately harmed the vulnerable and oppressed by fostering dependency on state policies. He cited examples from the United Kingdom and the United States, where social welfare policies led to the disintegration of black families, as individuals increasingly relied on government support rather than self-sufficiency. While Singh understood the necessity of economic liberalization, he also recognized that India's socio-economic realities required a carefully balanced approach.

A key aspect of Dr Singh's economic policy was his gradual shift away from heavy state subsidies and his push for the disinvestment of loss-making Public Sector Undertakings (PSUs). Recognizing that excessive subsidies distorted market efficiencies and placed a massive burden on the exchequer, Singh introduced policies to rationalize subsidies, particularly in industries such as

petroleum, fertilizers, and food distribution. His tenure saw a shift towards targeted subsidies rather than blanket welfare spending. Furthermore, he spearheaded the process of PSU disinvestment, ensuring that inefficient state-run enterprises either improved their performance or were privatized. Between 1991 and 1996, his policies led to the government selling minority stakes in various PSUs, a strategy that continued even when he became Prime Minister in 2004. Notably, his government initiated the sale of shares in companies like ONGC, GAIL, and Maruti, reinforcing the idea that the government should not be in the business of running businesses.

What made Dr. Singh's economic philosophy unique was his ability to integrate these contrasting ideas within the Indian context. While he embraced Smith's advocacy for free markets and Friedman's monetarist principles, he also acknowledged India's deep-rooted inequalities, large rural population, and widespread poverty. Thus, he ensured that liberalization was accompanied by targeted welfare measures, particularly for the rural population, who had limited opportunities to enter the job market. His tenure as Prime Minister saw initiatives such as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and the expansion of social security schemes, demonstrating his belief that economic growth must be inclusive. At the same time, his policies helped curb India's fiscal deficit, stabilize inflation, and create a more predictable economic environment for investors. The introduction of reforms such as the devaluation of the rupee, the removal of industrial licensing (License Raj), and tax rationalization aligned with Friedman's principles, ensuring that India transitioned from a closed, over-regulated economy to a dynamic, globally integrated market.

Dr. Manmohan Singh's legacy as India's 'Adam Smith' is evident in the country's transition from an inward-looking, slow-growing economy to a vibrant, competitive global player. His economic reforms created millions of jobs, expanded India's middle class, and attracted unprecedented foreign investment. Even today, his championed policies continue to shape India's economic trajectory. Like Adam Smith and Milton Friedman, Singh believed in the power of free markets but understood that markets alone were insufficient—state intervention was necessary to ensure equitable growth. His vision and intellect transformed India's economic landscape, proving that pragmatic policymaking, grounded in strong economic principles, can lead a nation toward sustained prosperity.